



Weekly Market Commentary

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Two Bears and a Bull

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Highlights

Bull and bear market trends over the past 63 years reveal that the current environment is most like that of the 1950s, when stocks were in a bull market while bonds and cash were in bear markets.

The month of August has not been friendly to investors in any of the major asset classes. Stocks have dipped and bond yields have climbed, pushing bond prices lower. And, with the rise in inflation to 2.0% (as measured by the Consumer Price Index), there is greater purchasing power loss associated with holding cash or money market investments.

The stock market is likely in the midst of another temporary pullback in a continuing bull market. However, other traditional asset classes may be suffering from a bear market that may linger. Many investors may not be sure how to proceed, since it has been a long time since we have seen the current combination of bull and bear markets among the three major asset classes.

Bull and bear market trends over the past 63 years reveal that the current environment is most like that of the 1950s, when stocks were in a bull market while bonds and cash were in bear markets [Figure 1].

1 Bull & Bear Markets Back to the 1950s



Source: LPL Financial, Bloomberg data 08/26/13. The S&P 500 and the Barclays Intermediate-Term Government Bond Index are unmanaged indexes, which cannot be invested into directly. The returns do not reflect fees, sales charges or expenses. Index performance is not indicative of any particular investment. Past performance is no guarantee of future results.



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So while the current market combination is rare, it is not unheard of. Nor has it been a fleeting or fragile one. For nearly the entire decade of the 1950s, stocks remained in an upward-trending secular bull market while bonds and cash were mainly in a bear market. That is potentially an encouraging sign that this pullback in the stock market may offer an attractive buying opportunity as the bull market resumes.

The Federal Reserve's (Fed) communications on tapering their bond purchases has resulted in bonds entering a bear market. This may continue in the coming years as the Fed ends the bond-buying program. At the same time, the Fed is likely to keep cash yields pinned down with no interest rate hikes likely for at least a year or two, maintaining the bear market for cash. However, we are likely to avoid the ugly triple-bear markets of the late 1970s, where soaring inflation weighed heavily on all markets. Inflation remains tame and stock market valuation (measured by the price-to-earnings ratio) is below all prior bull market peaks over the past 63 years, suggesting the potential for further gains ahead along with modest economic and profit growth. ■

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance reference is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Stock investing involves risk including loss of principal.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rates rise and bonds are subject to availability and change in price.

Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

Quantitative easing is a government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity.

The P/E ratio (price-to-earnings ratio) is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share. It is a financial ratio used for valuation: a higher P/E ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with lower P/E ratio.

INDEX DESCRIPTIONS

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Barclays Government/Credit Intermediate Index is a market value weighted performance benchmark for government and corporate fixed-rate debt issues with maturities between one and 10 years.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

This research material has been prepared by LPL Financial.

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